

Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01 INR-07
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TO SECSTATE WASHDC 8193

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CORRECTED COPY (MRN SHUD READ 6395 VIC 8193)

EO 11652 GDS
TAGS: ENRG VE
SUBJ: OIL PRODUCTION, PRICING, AND A POSSIBLE GASOLINE
SHORTAGE

1. SUMMARY. VENEZUELA'S PETROLEUM PRODUCTION IS TARGETED TO AVERAGE 2.294 MILLION BARRELS PER DAY IN 1977, THE SAME AS 1976, ACCORDING TO A DIRECTOR OF PETROLEOS DE VENEZUELA. EXPORT PRICES FOR FUEL OIL HAVE BEEN REDUCED DURING THE SECOND QUARTER, BUT ARE STILL ABOVE SPOT PRICES, AND CONSEQUENTLY EXXON, THE LARGEST BUYER, HAS REDUCED ITS PURCHASES. VENEZUELA MAY HAVE TO IMPORT GASOLINE TO COVER A TEMPORARY DEFICIT THIS SUMMER. END SUMMARY.

2. PETROLEOS DE VENEZUELA DIRECTOR FOR MARKETING AND EXPORT SUPPLIES ALIRIO PARRA ADVISED EMBASSY PETROLEUM OFFICER THAT PETROLEOS' TARGET FOR 1977 CURDE PRODUCTION WAS TO MAINTAIN AVERAGE DAILY RATE OF 2.294 MILLION BARRELS, IDENTICAL TO THE 1976 RATE. HE EMPHASIZED THAT REGARDLESS OF ANY OTHER PUBLICLY ANNOUNCED PRODUCTION LIMITS, THIS FIGURE WAS SPECIFICALLY AGREED TO BY MINISTER OF ENERGY IN HIS WRITTEN INSTRUCTIONS TO PETROLEOS. AND, PARRA
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SAID, THIS LEVEL MAY BE EXCEEDED UNDER CERTAIN CONDITIONS TO PERMIT ADDITIONAL EXPORTS OF HEAVY CURDES.

3. COMMENT. ACCORDING TO THE MINISTRY OF ENERGY'S 1976 ANNUAL REPORT AND SUBSEQUENT MINISTRY PUBLICATIONS, ITS GUIDELINES TO PETROLEOS FOR 1977 CALL FOR PRODUCTION TO AVERAGE 2.2 MILLION BARRELS PER DAY, PLUS OR MINUS 2 PERCENT,

IE UP TO 2.244 MILLION. ACTUAL PRODUCTION FOR THE FIRST QUARTER AVERAGED 2.355 MILLION, BUT THE DAILY RATE HAS NOW DROPPED TO ABOUT 2.15 DUE TO DECLINE IN DEMAND FOR FUEL OIL, GIVING A YEAR TO DATE AVERAGE OF ABOUT 2.27 MILLION.

4. WITH RESPECT TO PRICING POLICIES, PARRA NOTED THAT PETROLEOS HAS CUT THE EXPORT SELLING PRICE OF FUEL OIL EACH MONTH SINCE APRIL. HE ACKNOWLEDGED THAT THESE REDUCTIONS HAVE NOT KEPT PACE WITH THE FALL IN SPOT MARKET PRICES SINCE EARLY SPRING, BUT INSISTED IT WAS NORMAL FOR CONTRACT PRICE ADJUSTMENTS TO LAG BEHIND SPOT PRICES, AND POINTED OUT THAT VENEZUELAN FUEL OIL PRICES HAD ALSO LAGGED BEHIND SPOT PRICES WHEN THE MARKET WAS RISING LAST WINTER. PARRA ALSO ACKNOWLEDGED REPORTS THAT EXXON, THE LARGEST SINGLE BUYER OF VENEZUELAN FUEL OIL, HAS REJECTED PRTOLEOS' FUEL OIL PRICE FOR APRIL, MAY AND JUNE. HE EXPLAINED THAT EXXON FACES SPECIAL PROBLEMS, AND THAT OTHER EX-CONCESSIONAIRES HAVE CONTINUED TO ACCEPT FUEL OIL AT THESE PRICES.

5. COMMENT. EXXON'S MARKETING SPECIALIST HERE TOLD US THAT WHILE SOME LAG BETWEEN CONTRACT AND SPOT PRICES IS NORMAL, THE LAG THIS SPRING HAS BEEN MUCH MORE PRONOUNCED IN BOTH TIMING AND AMOUNT THAN THAT WHICH PREVAILED LAST WINTER WHEN PRICES WERE RISING. WHILE SPECIFICALLY REQUESTING THAT THIS NOT BE ATTRIBUTED TO EXXON, HE SAID THE COMPANY DOES NOT

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CONSIDER VENEZUELA'S PRESENT FUEL OIL PRICING POLICY TO BE CONSISTENT WITH NORMAL MARKET PRACTICE. EXXON HAS APPARENTLY REDUCED, BUT NOT STOPPED, ITS PURCHASES OF VENEZUELAN FUEL OIL AS A RESULT. OTHER COMPANIES, E G GULF AND SUN, REPORT THEY HAVE RELUCTANTLY ACCEPTED PETROLEOS' PRICES WITH NO REDUCTIONS IN OFFTAKE.

6. PARRA ALSO RAISED THE POSSIBILITY THAT VENEZUELA MAY BE FORCED TO IMPORT GASOLINE AS EARLY AS THIS SUMMER IF PRODUCTION CANNOT BE INCREASED. HE SAID THAT GIVEN THE RIGID PRODUCT MIX AVAILABLE FROM EXISTING DOMESTIC REFINERIES, GASOLINE PRODUCTION MAY NOT BE ABLE TO KEEP UP WITH SEASONALLY HIGHER LOCAL DEMAND THIS SUMMER, PARTICULARLY IF REFINERY RUNS MUST BE LIMITED TO AVOID AN OVERSUPPLY OF FUEL OIL. HE ALSO EXPRESSED CONCERN THAT THE GOV'S RECENT ACTION ALLOWING FREE IMPORT OF EMERGENCY GENERATING EQUIPMENT TO AVOID POWER SHORTAGES WOULD PUT FURTHER PRESSURE ON PETROLEOS' SUPPLIES OF MIDDLE DISTILLATES

7. COMMENT. THE GOV IS LIKELY SOON TO BE FACED WITH THE UNPLEASANT CHOICE OF IMPORTING GASOLINE, RATIONING IT, OR INCREASING ITS PRICE, IF NOT THIS YEAR, PROBABLY IN 1978.

PETROLEOS AND THE MINISTRY HAVE FOUGHT FOR HIGHER PRICES,
BUT SO FAR THIS HAS BEEN CONSIDERED POLITICALLY UNACCEPTABLE,
AND WE ESTIMATE THAT ANYTHING LESS THAN A MASSIVE INCREASE
WOULD HAVE LITTLE EFFECT ON RAPIDLY INCREASING CONSUMPTION.
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Message Attributes

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